Before the Federal Communications Commission Washington, D.C. 20554

In the Matter of)	
)	
)	
Qwest Petition for Waiver)	WC Docket No. 06-187
of Pricing Flexibility Rules)	
for Advanced Communications)	
Networks Services)	
)	

ORDER

Adopted: April 20, 2007 Released: April 20, 2007

By the Chief, Wireline Competition Bureau:

I. INTRODUCTION

1. In this order, we grant a request from Qwest Corporation (Qwest) for a waiver of certain requirements under the Commission's price cap rules and regulations to allow Qwest to exercise pricing flexibility for advanced services that rely on packet technology, similar to the pricing flexibility it has for other special access services. Specifically, consistent with the Commission's *Verizon Advanced Services Waiver Order*, this order grants Qwest Phase I pricing flexibility for packet-based advanced services where it already has qualified for Phase I or II pricing flexibility for other special access services. Qwest may also apply for Phase II pricing flexibility for these advanced services by satisfying the competitive triggers set forth in the Commission's pricing flexibility rules.

II. BACKGROUND

2. Following passage of the Telecommunications Act of 1996,³ the Commission adopted the *Pricing Flexibility Order*, which established a framework for granting price cap local exchange carriers (LECs) flexibility in the pricing of certain interstate access services as competition for those services

¹ Qwest Petition for Waiver of Pricing Flexibility Rules for Advanced Communications Networks Services, WC Docket No. 06-187, at 1-2 (filed Sept. 22, 2006) (Petition). A public notice seeking comment on this petition was issued on Oct. 6, 2006. *Comments Sought on Qwest Petition for Waiver to Allow It to Exercise Pricing Flexibility for Certain Advanced Communications Networks Services*, WC Docket No. 06-187, Public Notice, 21 FCC Rcd 11330 (Wireline Comp. Bur. 2006).

² Verizon Petition for Waiver of Pricing Flexibility Rules for Fast Packet Services, WC Docket No. 04-246, Memorandum Opinion and Order, 20 FCC Rcd 16840, para. 1 (2005) (Verizon Advanced Services Waiver Order). Qwest seeks relief for advanced services using packet switching equipment and facilities that reach the end user through special access line connections. Petition at 2. The waiver request does not apply to Digital Subscriber Line (DSL) services.

³ Telecommunications Act of 1996, Pub. L. No. 104-104, 110 Stat. 56. The 1996 Act amended the Communications Act of 1934, 47 U.S.C. § 151 *et seg.* We refer to these collectively as the "Communications Act" or the "Act."

develops.⁴ Pursuant to rules established in the *Pricing Flexibility Order*, carriers may qualify for pricing flexibility for specific services in two phases by satisfying certain competitive showings designed to demonstrate that market conditions in a particular Metropolitan Statistical Area (MSA) warrant the relief they seek.⁵ Phase II regulatory relief provides greater pricing flexibility and thus requires a higher competitive showing.⁶ In order for certain access services to be eligible for pricing flexibility, however, they must be subject to price cap regulation.⁷ But, as Qwest explains, it never incorporated packetswitched services into price caps because it interpreted the 1990 *LEC Price Cap Order* to exclude these services from price cap regulation.⁸ Consequently, these services never qualified for pricing flexibility.

3. On September 22, 2005, the Commission granted Verizon a waiver to allow it to exercise pricing flexibility for certain advanced services that use packet technology similar to the pricing flexibility that it has for other special access services. On September 22, 2006, Qwest filed its petition seeking the same pricing flexibility relief for comparable packet-switched services, known as Advanced Communications Networks Services (advanced services), and a waiver of the same rules that the Commission granted to Verizion. Specifically, Qwest seeks a waiver of: (1) the general requirement that services must be in price caps to be eligible for Phase I and II pricing flexibility; and (2) other specific requirements to permit it to exercise Phase I pricing flexibility for advanced services in MSAs where it already has qualified for Phase I or II pricing flexibility for other special access services. If

⁴ Access Charge Reform, CC Docket Nos. 96-262, 94-1, 98-157, CCB/CPD File No. 98-63, Fifth Report and Order and Further Notice of Proposed Rulemaking, 14 FCC Rcd 14221, 14225, para. 3 (1999) (*Pricing Flexibility Order*), aff'd, WorldCom, Inc. v. FCC, 238 F.3d 449 (D.C. Cir. 2001).

⁵ See generally 47 C.F.R. § 1.774; 47 C.F.R. Part 69, Subpart H (Pricing Flexibility Rules). To obtain Phase I relief for interstate special access and dedicated transport services other than channel terminations between a LEC end office and an end user's customer premises, a price cap LEC must demonstrate that unaffiliated competitors have collocated in at least 15 percent of the LEC's wire centers within an MSA or collocated in wire centers accounting for 30 percent of the LEC's revenues from these services within the MSA and that at least one of these collocators in each wire center is using competitive transport facilities. 47 C.F.R. § 69.709(b); see Pricing Flexibility Order, 14 FCC Rcd at 14234-35, para. 24. Higher thresholds apply for obtaining relief for channel terminations between a LEC's end office and an end-user customer. 47 C.F.R. § 69.711(b), (c).

⁶ Pricing Flexibility Order, 14 FCC Rcd at 14296, para. 141. To obtain Phase II relief for special access and dedicated transport services other than channel terminations between a LEC end office and an end-user customer, the trigger thresholds are unaffiliated collocations in 50 percent of the LEC's wire centers within the MSA or in wire centers accounting for 65 percent of the LEC's revenues from these services within the MSA and at least one collocator in each wire center is using competitive transport. 47 C.F.R. § 69.709(c); see Pricing Flexibility Order, 14 FCC Rcd at 14235, para. 25.

⁷ See id. at 14224 n.1; 47 C.F.R. §§ 69.709(a), 69.711(a), 69.713(a) (listing services for which LECs may seek pricing flexibility). Not all services offered by price cap LECs are in price caps. Upon the adoption of price cap regulation in 1990, the Commission excluded some services from this system of regulation. *Policy and Rules Concerning Rates for Dominant Carriers*, CC Docket No. 87-313, Second Report and Order, 5 FCC Rcd 6786, 6810, paras. 191-97 (1990) (*LEC Price Cap Order*), Erratum, 5 FCC Rcd 7664 (Com. Car. Bur. 1990), *modified on recon.*, 6 FCC Rcd 2637 (1991), *aff'd sub nom. National Rural Telecom Ass'n v. FCC*, 988 F.2d 174 (D.C. Cir 1993).

⁸ Petition at 4.

⁹ See generally Verizon Advanced Services Waiver Order, 20 FCC Rcd 16840.

¹⁰ Petition at 1-2, 4, 6 (citing *Verizon Advanced Services Waiver Order*, 20 FCC Rcd at 16840, para. 1). The petition applies to the following advanced services: Frame Relay, Asynchronous Transfer Mode, LAN Switching, and Metro Optical Ethernet. Petition at 2. These services are offered through Section 8 of Qwest FCC Tariff No. 1. *Id.* at 2.

¹¹ Petition at 1-2, 4.

Relying on the *Verizon Advanced Services Waiver Order*, Qwest argues that its advanced services are entitled to Phase I pricing flexibility in various areas without an additional competitive showing because: (1) these services are special access services; and (2) the Commission has already determined that sufficient competition exists in those areas to warrant pricing flexibility relief for special access services.¹² Qwest also seeks the ability to exercise pricing flexibility for new packet-based advanced services that it may offer in the future.¹³

III. DISCUSSION

- 4. In this order, we grant Qwest the same relief that Verizon received in the *Verizon Advanced Services Waiver Order*.¹⁴ We recognize that the Commission will determine the overall regulatory treatment of advanced services on a going forward basis when it completes the *Dom/Non-Dom* and *Special Access NPRM* proceedings.¹⁵ As the Commission previously noted, the grant of the waiver to allow Verizon limited pricing flexibility relief for advanced services was interim in nature and did not prejudge broader issues related to the regulatory treatment of advanced services.¹⁶ Similarly, our decision here does not prejudge the full and fair consideration of these issues in the ongoing proceedings.
- 5. The Commission may waive its regulations for good cause shown.¹⁷ In general, the waiver request must demonstrate special circumstances warranting a deviation from the general rule, and that such a deviation will serve the public interest.¹⁸ For the reasons discussed below and consistent with the Commission's findings in the *Verizon Advanced Services Waiver Order*, we conclude that good cause exists to permit Qwest to exercise pricing flexibility for advanced services that rely on packet technology, similar to the pricing flexibility relief that it has for other special access services.¹⁹ We thus grant a waiver enabling Qwest to exercise Phase I pricing flexibility for packet-based services in those MSAs where it already has qualified for Phase I or II pricing flexibility for its special access services. That is, we waive sections 1.774, 69.709, 69.711, and 69.727 of the Commission's pricing flexibility rules for these packet-based services.²⁰ Where Qwest has not yet qualified for pricing flexibility, it may include

¹² Petition at 2, 5, 9 (citing the *Verizon Advanced Services Waiver Order*, 20 FCC Rcd at 16849, para. 16, and applying the same analysis for Qwest advanced services). Qwest asserts that it "seeks nothing more than the relief received by Verizon." Petition at 6.

¹³ Petition at 1-2; Letter from Melissa E. Newman, Vice President - Federal Regulatory, Qwest, to Marlene H. Dortch, Secretary, Federal Communications Commission, WC Docket No. 06-187, at 1 (filed Dec. 14, 2006) (Qwest Dec. 14 *Ex Parte* Letter).

¹⁴ See generally Verizon Advanced Services Waiver Order, 20 FCC Rcd 16840.

¹⁵ See generally Review of Regulatory Requirements for Incumbent LEC Broadband Telecommunications Services, CC Docket No. 01-337, Notice of Proposed Rulemaking, 16 FCC Rcd 22745 (2001) (Dom/Non-Dom NPRM); Special Access Rates for Price Cap Local Exchange Carriers, WC Docket No. 05-25, RM-10593, Order and Notice of Proposed Rulemaking, 20 FCC Rcd 1994 (2005) (Special Access NPRM).

¹⁶ Verizon Advanced Services Waiver Order, 20 FCC Rcd at 16848, para. 14.

¹⁷ 47 C.F.R. § 1.3.

¹⁸ Northeast Cellular Telephone Co. v. FCC, 897 F.2d 1164, 1166 (D.C. Cir. 1990) (citing WAIT Radio v. FCC, 418 F.2d 1153, 1159 (D.C. Cir. 1969)).

¹⁹ See Verizon Advanced Services Waiver Order, 20 FCC Rcd at 16844, para, 8.

²⁰ Specifically, we waive the requirement that services must be in price caps to be eligible for pricing flexibility for Phase I and II relief and the following rules as applicable to Phase I relief: 47 C.F.R. §§ 1.774 (requiring petitions for pricing flexibility to include collocation and wire center data by MSA and to "show that the price cap LEC has met the relevant thresholds"), 69.709(b) (establishing Phase I triggers for special access services other than channel terminations between LEC end offices and the customer premises), 69.711(b) (establishing Phase I triggers for end-(continued....)

such advanced services in any future pricing flexibility petitions, but it must support such petitions with data regarding its advanced services and must satisfy the competitive showings set forth in the Commission's rules.²¹

- 6. We find that Qwest demonstrates special circumstances that warrant a waiver in this case. Specifically, the carrier excluded packet-switched advanced services from price caps to comply with Commission rules.²² As a result, Qwest was unable to take advantage of pricing flexibility for these services when it became an option several years later. The Commission recognized in the *Verizon Advanced Services Waiver Order* that competing carriers are able to provide their own advanced services, and some pricing flexibility for Verizon was warranted.²³ Consistent with that finding, this waiver provides Qwest with the ability to seek regulatory relief in similar circumstances.

²¹ See, e.g., 47 C.F.R. § 1.774; 47 C.F.R. Part 69, Subpart H.

²² Petition at 4. As an initial matter, we find it unnecessary for Qwest to incorporate these services into price caps before they are eligible for pricing flexibility. As described in para. 2, *supra*, the advanced services at issue were not included in price caps because of questions regarding the appropriate regulatory treatment of advanced services. This is currently an open question before the Commission in pending rulemaking proceedings, such as those initiated by the *Dom/Non-Dom NPRM* and the *Special Access NPRM*. See generally *Dom/Non-Dom NPRM*, 16 FCC Rcd 22745; Special Access NPRM, 20 FCC Rcd 1994. Consistent with the Commission's Verizon Advanced Services Waiver Order, we find that these procedural circumstances should not act to preclude Qwest from obtaining pricing flexibility for these services. See Verizon Advanced Services Waiver Order, 20 FCC Rcd at 16844, para. 8 n.31.

²³ See, e.g., Verizon Advanced Services Waiver Order, 20 FCC Rcd at 16846, para. 11. The Commission has concluded that competitors would not be impaired in their ability to offer their own advanced services to customers if they lack access to incumbent LECs' packet switching. See Review of the Section 251 Unbundling Obligations of Incumbent Local Exchange Carriers, CC Docket No. 01-338, Implementation of the Local Competition Provisions of the Telecommunications Act of 1996, CC Docket No. 96-98, Deployment of Wireline Services Offering Advanced Telecommunications Capability, CC Docket No. 98-147, Report and Order and Order on Remand and Further Notice of Proposed Rulemaking, 18 FCC Rcd 16978, 17321-23, paras. 537-39 (2003) ("[C]ompetitive carriers lead incumbent LECs in the deployment of Gigabit Ethernet switches."), Errata, 18 FCC Rcd 19020 (2003), vacated and remanded in part, affirmed in part, United States Telecom Ass'n v. FCC, 359 F.3d 554 (D.C. Cir.), cert. denied, 125 S. Ct. 313 (2004).

²⁴ Petition at 2 ("These services are . . . generally purchased by small business and enterprise customers including government and education customers that require packet-switched applications to transmit their own data, video and voice").

²⁵ Petition at 2 (explaining that, like Verizon's packet-based advanced services, Qwest's advanced services are special access services because they use "dedicated facilities that enable an end-user customer to connect two or more of its locations") (citing *Verizon Advanced Service Order*, 20 FCC Rcd at 16845, para. 10 and n.39). Special access services do not use local switches; instead they employ dedicated facilities that run directly between the end (continued....)

Services Waiver Order, the Commission concluded that requiring independent competitive showings for advanced services in those same areas would serve no additional purpose and is unnecessary for Phase I relief.²⁶ The Commission found that requiring a separate competitive showing would not be in the public interest because it would result in a duplication and waste of resources that would merely create undue administrative and regulatory burdens.²⁷ We likewise find that the administrative burdens and delay of imposing such a showing here would not serve the public interest.²⁸

- 8. Consistent with the Commission's finding in the *Verizon Advanced Services Waiver Order*, we find that the waiver that we grant in this proceeding will not compromise the policies underlying the Commission's price cap and pricing flexibility rules.²⁹ The price cap system, adopted in 1990, was designed to replicate some of the efficiency incentives present in competitive markets and to act as a transitional regulatory mechanism en route to full competition.³⁰ The Commission established the pricing flexibility framework to permit price cap LECs greater pricing flexibility as greater competition develops.³¹ The intent of Phase I pricing flexibility is to allow incumbent LECs to respond to competition as it develops, while at the same time using the price cap mechanism to guard against unreasonable rate increases for those customers that do not yet have competitive alternatives.³²
- 9. Although Phase I relief for special access services is designed to provide incumbent LECs with greater flexibility in lowering prices for particular customers, Phase I pricing flexibility rules require price cap LECs to continue to offer special access services at generally available tariffed rates that

²⁶ Verizon Advanced Services Waiver Order, 20 FCC Rcd at 16846, para. 11. For this reason, we also conclude that the waiver here does not undermine the rationale for the competitive showings required by the Commission's pricing flexibility rules. See id. at 16849, para. 16 (explaining sufficient competition exists to warrant pricing flexibility for advanced services in certain areas).

²⁷ *Id.* at 16846, para. 11 n.42 (explaining administrative burdens and delay that would be incurred by a carrier if a new competitive showing were required).

²⁸ Consistent with the *Verizon Advanced Services Waiver Order*, we note that Qwest must have qualified for Phase I or II relief for *both* end-user channel terminations and special access services other than end-user channel terminations in all MSAs in which the service is provisioned for each part of the service to qualify for pricing flexibility. *Id.* at 16846, para. 11 n.49. Qwest explains that its advanced services "use a channel termination facility between the end user and Qwest's office serving that end user, and the equivalent of non-channel termination facilities provide the rest of the service" and that "[t]here can be different terms for the 'channel termination' facility for different products." Petition at 2, 3 n.4. For example, in the case of ATM service, Qwest provides channel termination facilities when the customer purchases the access links identified in its tariff; the non-channel termination facilities that provide the rest of the service include the ports and logical connections. Petition at 3 n.5; Qwest Dec. 14 *Ex Parte* Letter at Attach. A, page 3. Under the *Pricing Flexibility Order*, higher thresholds apply for obtaining Phase I or II relief for channel terminations between an end-user customer and a LEC's office serving that end user, than apply to other special access facilities, e.g., channel terminations to another carrier's point of presence or interoffice transport facilities. *Pricing Flexibility Order*, 14 FCC Rcd at 14278, 14299-300, paras. 100, 150.

²⁹ See Verizon Advanced Services Waiver Order, 20 FCC Rcd at 16848-49, para. 15.

³⁰ Pricing Flexibility Order, 14 FCC Rcd at 14227, para. 11.

³¹ *Id.* at 14225, para. 3.

³² *Id.* at 14225, 14258, paras. 3, 69.

are subject to price caps.³³ These rates are constrained by price cap regulation to protect customers without competitive alternatives.³⁴ Accordingly, this safeguard works as intended if services are subject to price caps before becoming eligible for Phase I pricing flexibility. Although the tariffed rates for Qwest's advanced services are not subject to price cap regulation, we find, as the Commission did in the *Verizon Advanced Services Waiver Order*, that there are other mechanisms in place to protect customers that lack competitive alternatives.³⁵ Qwest's tariffed rates remain subject to Part 61, subparts E and F of the Commission's rules.³⁶ These rules protect against unreasonable rate increases by requiring LECs to justify any increase with cost and other supporting data in the tariff review process.³⁷ We note that Qwest bases its petition on its contention that the advanced services market is competitive and its need to be able to offer lower rates to meet competition.³⁸ Accordingly, if, after Qwest enters into contracts for these advanced services on more favorable terms, it should seek to raise its generally available tariffed rates for the same services, such a filing would be reviewed with particular scrutiny.

- 10. Qwest also requests that, as part of any waiver, it be able to exercise pricing flexibility for packet-based services it may introduce in the future as long as it complies with the "new services" rules. ³⁹ Generally, these rules permit a price cap carrier to seek pricing flexibility for a service at the time that it is introduced. ⁴⁰ Consistent with the relief that the Commission granted in the *Verizon Advanced Services Waiver Order*, the waiver granted here shall extend to any new advanced services that Qwest may introduce in the future in MSAs where it has qualified for, or seeks, pricing flexibility. ⁴¹ Specifically, these services will be eligible for treatment as "new services" within the meaning of rule 69.729 and paragraph 173 of the *Pricing Flexibility Order*. ⁴²
- 11. Also consistent with the Commission's findings in the *Verizon Advanced Services Waiver Order*, we find that a competitive showing is necessary for Phase II relief.⁴³ Because we waive the general requirement that the advanced services at issue be incorporated into price caps before being eligible for pricing flexibility, Qwest may, in a subsequent proceeding, apply for Phase II pricing

³³ *Id.* at 14295, para. 136.

³⁴ *Id.* at 14258, para. 69.

³⁵ See Verizon Advanced Services Waiver Order, 20 FCC Rcd at 16848-49, para. 15.

³⁶ See 47 C.F.R. Part 61, Subparts E & F.

³⁷ *Id*

³⁸ Petition at 7.

³⁹ Petitition at 1-2; Qwest Dec. 14 Ex Parte Letter at 1 (citing 47 C.F.R. § 69.729(a), (b)).

⁴⁰ See 47 C.F.R. § 69.729.

⁴¹ See Verizon Advanced Services Waiver Order, 20 FCC Rcd at 16850, para. 17. The relief that is granted here does not apply to Digital Subscriber Line, government services, promotions, and specialized services, which were excluded from the relief granted in the Verizon proceeding. *Id.* at n.81.

⁴² 47 C.F.R. § 69.729; *Pricing Flexibility Order*, 14 FCC Rcd at 14310, para. 173. The waiver we grant will permit Qwest to qualify for Phase I pricing flexibility for new advanced services that may be introduced in the future in areas where Qwest has obtained, or applied for, pricing flexibility for other special access services. *See* 47 C.F.R. § 69.729; *Pricing Flexibility Order*, 14 FCC Rcd at 14310, para. 173. Paragraph 173 contemplates a price cap LEC demonstrating that the new service falls within a price cap basket and service band for which the LEC already has been granted pricing flexibility. *Pricing Flexibility Order*, 14 FCC Rcd at 14310, para. 173. Qwest will be required to make an analogous showing in light of the factors discussed in this order. Likewise, the carrier must comply with the provisions of rules 69.729(a) and (b), as applicable. *See* 47 C.F.R. § 69.729(a), (b).

⁴³ See Verizon Advanced Services Waiver Order, 20 FCC Rcd at 16850, para, 18.

flexibility for advanced services by satisfying the applicable competitive triggers.⁴⁴

IV. ORDERING CLAUSES

- 12. Accordingly, IT IS ORDERED that, pursuant to authority contained in sections 1, 2, 4(i), 4(j), and 201-205 of the Communications Act of 1934, as amended, 47 U.S.C. §§ 151, 152, 154(i), 154(j), 201-205, section 1.3 of the Commission's rules, 47 C.F.R. § 1.3, and the authority delegated in sections 0.91 and 0.291 of the Commission's rules, 47 C.F.R. §§ 0.91, 0.291, the *Pricing Flexibility Order* requirement that a service must be in price caps before it is eligible for pricing flexibility IS WAIVED with respect to the advanced services offered through Section 8 of Qwest's FCC Tariff No. 1, as set forth herein.
- 13. IT IS FURTHER ORDERED that, pursuant to authority contained in sections 1, 2, 4(i), 4(j), and 201-205 of the Communications Act of 1934, as amended, 47 U.S.C. §§ 151, 152, 154(i), 154(j), 201-205, section 1.3 of the Commission's rules, 47 C.F.R. § 1.3, and the authority delegated in sections 0.91 and 0.291 of the Commission's rules, 47 C.F.R. §§ 0.91, 0.291, waiver of sections 1.774, 69.709(b), 69.711(b), and 69.727(a) of the Commission's rules, 47 C.F.R. §§ 1.774, 69.709(b), 69.711(b), and 69.727(a), IS GRANTED to the extent necessary to allow Qwest to exercise Phase I pricing flexibility with respect to the advanced services offered through Section 8 of Qwest's FCC Tariff No. 1, as set forth herein.
- 14. IT IS FURTHER ORDERED that, pursuant to authority contained in sections 1, 2, 4(i), 4(j), and 201-205 of the Communications Act of 1934, as amended, 47 U.S.C. §§ 151, 152, 154(i), 154(j), 201-205, section 1.103(a) of the Commission's rules, 47 C.F.R. § 1.103(a), and the authority delegated in sections 0.91 and 0.291 of the Commission's rules, 47 C.F.R. §§ 0.91, 0.291, this Order IS EFFECTIVE upon release.

FEDERAL COMMUNICATIONS COMMISSION

Thomas J. Navin Chief, Wireline Competition Bureau

⁴⁴ See id.